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C O N F I D E N T I A L SECTION 01 OF 02 BELGRADE 000455

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SUBJECT: THE SERBIAN RADICAL PARTY'S ECONOMIC AGENDA

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BELGRADE 00000455 001.2 OF 002

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REASON: 1.4 (b), (d)

Summary

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**¶1.** (SBU) As the Serbian election campaign wraps up, the Radical party is trying to reassure international investors that they should not fear a Radical-led government. Party leader Nikolic delivered that message to international media, but undercut his own message by reiterating Radical skepticism of EU integration.

Beyond that simple message there are few details of what a Radical economic agenda might highlight, beyond corruption and employment. There are few in the Radical party with economic credentials or experience and many observers expect a Radical-led government would bring in non-political economists to fill senior positions in the economic portfolio. End Summary.

Nikolic: Investors Have Nothing to Fear

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**¶2.** (U) In an interview with the Financial Times published on May 1, Serbian Radical Party (SRS) leader Tomislav Nikolic tried to reassure international investors that an SRS-led government was nothing to fear. Nikolic told the FT, "I'm not going to jeopardize foreign investment, Serbia has an enormous need for FDI." At the same time though, Nikolic insisted that the just-signed EU Stabilization and Association Agreement (SAA) would be overturned. On May 2 in an interview with the New York Times Nikolic said, "They say if we win there will be no more capital coming into Serbia, but why wouldn't there be? Germany recognized Kosovo but that does not stop us from cooperating with Germany." Nikolic pointed to Russia as a key economic partner, and expressed interest in expanding Serbia's free trade agreement with Russia.

Radical Party Economic Agenda

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**¶3.** (U) The two primary pillars of the SRS economic agenda are corruption and unemployment. In the party's opposition role the SRS has consistently singled out DS and G-17 party economic leaders such as current Deputy Prime Minister Djelic, Economy Minister Dinkic and former Privatization Minister Vlahovic as examples of corrupt politicians who have enriched themselves through selling off Serbian firms in corrupt deals. On unemployment the SRS has attacked the current government for privatizations that have led to job losses and hardship for workers. The SRS platform focuses on subsidies and government-led efforts to increase manufacturing, but does not outline details of an economic program that the party would follow. Other components of SRS economic rhetoric include

making private housing affordable, prioritizing agricultural output, addressing pensions and providing free health care and education. The SRS has provided no information as to how they would pay for these costly programs, but most analysts agree any plan would involve raiding Serbian foreign currency reserves.

Economic Leaders?

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¶4. (SBU) Serbian business leaders and academics say that the Radical Party does not have a cadre of economic thinkers or politicians experienced with economic issues. The only two names that a wide spectrum of contacts could identify were Dragan Todorovic, long ago a Minister of Transportation and Communications, and Jorgovanka Tabakovic, a current member of parliament. Many expect that an SRS-led government would look to non-political academics to fill key economic ministerial and sub-ministerial positions. Conventional wisdom is that the SRS would "hire" economic "experts" to lend credibility on economic policy. Professors at the Belgrade University Economic faculty are likely targets for SRS leaders looking to find technical experts.

¶5. (U) Tabakovic gave some insight into SRS thinking during an April 16 appearance on B92 television. She told the show's host, "I'd like you as media to work more on informing citizens on the advantages and disadvantages, i.e. the costs of entrance into the EU." In response to a question about the SRS economic program, Tabakovic said that the government should subsidize agriculture, industrial production and establish a state development bank. Tabakovic criticized foreign investment in the financial sector as unproductive and suggested that recent privatizations had only led to layoffs and closure of businesses. Tabakovic provided few details for an economic agenda, but suggested that an SRS government would target reducing the current 18% VAT to 12% in 5 years. The SRS would also seek to reduce the current 10% corporate profit tax to 8%.

BELGRADE 00000455 002.2 OF 002

Spend, Spend, Spend

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¶6. (C) The outgoing IMF resident representative, two heads of prominent international banks and the head of a leading local brokerage firm each separately gave econoff the same economic projection for a Radical-led government. They all expected that the SRS would dip into funds received from recent privatizations to pay for employment-driven public works projects. They would slow down privatization and implement new subsidies in many sectors of the economy. This increased government spending would prop up the economy in the short term, but would seriously threaten Serbia's already delicate macroeconomic balance with spiraling government debts and limited foreign investment leading to strong pressure on inflation and the exchange rate. These pressures would be even greater if the SRS cut government revenues with tax reductions as outlined by Tabakovic. This scenario leaves a bleak prognosis for mid-term economic growth and risks a return to inflation and economic stagnation.

¶7. (C) SRS economic rhetoric states that EU integration is distant (a self-fulfilling prophecy given the party's commitment to ending cooperation with the Hague Tribunal) and that Serbia should focus on local development of industrial and agricultural production. The party looks to Russia as a key investor and market for Serbia, but it is unclear what success a Radical-led government would have in expanding the so far almost completely energy-sector- driven Russian economic engagement in Serbia.

Comment

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¶8. (C) Serbia's economy has been growing steadily for the last few years, but government gridlock in the wake of the January 2007 elections and the eventual forming of the dysfunctional DS-DSS-G17 coalition government has now coincided with global

economic weakness leaving any new Serbian government with very little margin for error in economic policy. If a radical-led government comes to power it will face a significant challenge to establish economic credibility internationally and attract desperately needed investment. International investors already in Serbia tell us they expect many new faces in government, but not much real change for their operations if an SRS government comes to power. Under an SRS-led government new investors and those waiting on the sidelines for a clearer picture of Serbia's direction are much less likely to commit to investments in Serbia, especially with the slowing of integration with the EU markets that many international investors desire. End Comment.

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